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CURRENCY REFORM OF 1947

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The currency reform of 1947 and the abolition of rationing of food and manufactured goods constitute the most important political and economic measures toward liquidation of the consequences of the war.

Direct military expenditures alone from 1 July 1941 to 1 January 1946 amounted to more than 551 billion rubles, while damages inflicted by the enemy amounted to not less than 679 billion rubles.

Notwithstanding curtailment of consumers' goods production, the revenue of the state budget, following conversion to war-time production, grew yearly. Sacrifices of the Soviet people insured a high level of government income from the socialist economy, which continued to be the main source of state revenue. However, to cover cost of war production, it was necessary to put into circulation large amounts of money, which with sharp curtailment in consumers' goods production, resulted in the lowering of the purchasing power of the ruble. The issue of false money by the Germans in occupied territories aggravated the situation still more.

Introduction of rationing succeeded, during the war, in maintaining fixed government prices on the principal consumers' goods. Open market prices during the same period increased from 10 to 15 times.

Rationing so essential in war time for mobilization of economic resources, becomes a stumbling block in a peace-time economy in that it diminishes the importance of money in the national economy. It follows that, with the end of the war, the Soviet government faced the tasks of abolishing rationing and of transition to an open market to increase the economic role of money and restore the value of the ruble.

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Abolition of rationing was originally intended for 1946 but the drought of that year, which damaged Soviet agriculture, forced postponement until 1947.

Abolition of rationing and the transition to trade based on uniform prices can be accomplished only by stabilizing the ruble and increasing its purchasing power. Accordingly, it became necessary to bring the volume of money in circulation into line with actual requirements of the economy, a task which the currency reform of 1947 was called upon to accomplish.

However, reducing the amount of money in circulation alone is not enough. Conditions must be created to help maintain the stability of the ruble and increase its purchasing value, which means that production of goods must be increased and government expenditures decreased.

As regards increasing production, much progress has already been made in 1946 and large increases are expected for 1947. The second task, that of decreasing government expenditures, is closely linked to the reduction of the government debt. A substantial part of that debt was contracted during the war when the purchasing power of the ruble was low. Liquidation of the debt, however, must take place at a time when, as a result of the currency reform, the purchasing power of the ruble will be considerably higher. It is therefore, necessary to bring about a conversion of government loans which will enable the state budget to divert large resources to industrial production.

The currency reform of 1947 provides, first, for the issue of new money and the withdrawal of the old; secondly, for revaluation of the deposits of the population, as well as of the current accounts of cooperatives and collective farms, and thirdly, it provides for conversion of government loans.

The exchange of the old money for new was at the rate of 10 to 1. This ratio was applied to all cash in private hands as well as in government cooperative and social organizations. It is believed that this ratio will do away with the lack of balance which existed between money in circulation and the volume of trade and will sharply reduce the monetary savings accumulated during the war by speculative elements.

The currency reform has destroyed all large monetary savings, but at the same time the Soviet government has taken measures to protect the earned incomes of the large masses of the population. Thus, in a number of enterprises, wage payments were so organized that the current income of the people was not affected to any great extent.

In revaluing bank deposits the same principle of protecting the interests of the large masses was being followed. Deposits of less than 3,000 rubles remained intact. Deposits of 3,000 rubles and over were subject to revaluation but the conditions of revaluation were most favorable. With deposits of less than 10,000 rubles, 3,000 were left intact plus two thirds of the remainder. On deposits of over 10,000 rubles, the first 10,000 were subject to the procedure described above, while 50 percent the remainder was credited to the depositor.

In respect to conversion of loans, the Council of Ministers of the USSR, and the Central Committee of the Communist Party decreed that all previously contracted loans are to be converted into a new 2 percent loan to be issued in 1948 with a conversion rate of one ruble for every 3 rubles due on old loans. [According to Sovetskiye Finansy, Vol VIII, No 11, 1947, government loans during the war period amounted to 76.1 billion rubles.]

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This is the second time that a conversion of loans is taking place in the USSR. By far the largest part of state loans took place during the war. At that time the price level of commodities was very high. But now the purchasing power of the ruble is on the increase, rationing has been abolished, and prices on food and industrial commodities have been lowered. Hence the necessity for a conversion of loans, which will greatly reduce government indebtedness. Furthermore, the interest on government loans has been reduced from 4 to 2 percent.

The Second Government Loan issued in 1947 is not subject to conversion. On the other hands, the freely circulating lottery loan of 1938 is subject to conversion on special conditions. It is convertible into a 3 percent lottery loan issued 13 December 1947 with a conversion rate of one ruble for every 5 rubles of the 1938 loan.

The currency reform also provides for revaluation of the monetary resources of collective farms, and industrial and consumers' cooperatives. This was decided upon because these organizations have accumulated large monetary resources as a result of the high prices prevailing during the war. This accumulation of monetary resources resulted numerous cooperative organizations stopping use of State Bank credits. It was, therefore, considered advisable to revalue the monetary resources of these organizations and use them for financing the national economy as a whole. However, in view of the socialist character of the property held by these organizations, the revaluation was affected on very favorable terms.

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